



LAKE SHORE PUBLIC SCHOOLS

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

LAKESHORE PUBLIC SCHOOLS

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LAKESHORE PUBLIC SCHOOLS
Administrative Personnel
Year Ended June 30, 2008

SCHOOL BOARD MEMBERS

H. Timothy Fenderbosch	President
Mark D. Whitwam	Vice-President
Cindy Gray	Secretary
Frederick A. Welch	Treasurer
Michael R. Welch	Trustee
Robert T. Kenagy	Trustee
Jeff F. Hannan	Trustee

PRINCIPALS AND ADMINISTRATORS

Don Frank	Superintendent
Ellen Rudy	Assistant Superintendent
Bill Scaletta	High School Principal
Bill Shepard	Middle School Principal
Kathy Boyle	Elementary School Principal
Marcia Bowman	Elementary School Principal
Marcy White	Elementary School Principal

CHIEF FINANCIAL OFFICER

Rob Burgess



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

November 3, 2008

Board of Education
Lakeshore Public Schools
Stevensville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Lakeshore Public Schools** (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lakeshore Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Schools as of June 30, 2008, and the respective changes in financial position, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated November 3, 2008 on our consideration of Lakeshore Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lakeshore Public Schools' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of Lakeshore Public Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in Note 15 to the financial statements, capital assets were restated during the current year in connection with a physical inventory. Accordingly, beginning net assets of governmental activities as of July 1, 2007 have been restated to adjust these balances.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lakeshore Public Schools is a K-12 school district located in Berrien County, in Southwest Michigan. The accompanying financial statements are completed in compliance with the provisions of accounting principles generally accepted in the United States of America (GAAP). The management's discussion and analysis, a requirement of GAAP, is intended to be the Lakeshore Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

GAAP requires the reporting of two types of financial statements: district-wide financial statements and fund financial statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's accounting manual. In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds, including Debt Fund, Building and Site Fund, Public Improvement Fund, and the School Service Funds, which are comprised of food service, athletics, and various bookstore accounts.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

District-wide Financial Statements

The district-wide financial statements are full-accrual basis statements. They report all of the School District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the School District are reported in the statement of net assets of the district-wide financial statements.

Summary of Net Assets

The following summarizes the net assets at fiscal years ended June 30, 2008 and 2007.

	June 30	
	2008	2007
Assets		
Current and other assets	\$ 9,199,013	\$ 7,751,433
Capital assets	48,023,986	47,026,956
Less: accumulated depreciation	(14,834,891)	(14,707,671)
Capital assets - net book value	33,189,095	32,319,285
Total assets	\$ 42,388,108	\$ 40,070,718
Liabilities		
Other liabilities	\$ 3,756,133	\$ 2,905,789
Long-term liabilities	15,682,458	17,065,000
Total liabilities	19,438,591	19,970,789
Net assets		
Invested in capital assets, net of related debt	18,019,383	15,793,954
Restricted for debt service	405,966	263,988
Restricted for capital projects	932,168	1,019,618
Restricted for athletics	12,614	20,140
Restricted for food service	260,021	234,315
Restricted for bookstore	104,257	94,400
Unrestricted	3,215,108	2,673,514
Total net assets	\$ 22,949,517	\$ 20,099,929

Analysis of Financial Position

During fiscal year ended June 30, 2008, the School District's net assets increased by \$2,849,588. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The School District's expenditures from General Fund revenues exceeded revenues by \$539,970 for the fiscal year ended June 30, 2008. See the section entitled "Results of Operations", below, for further discussion of General Fund operations.

B. Bonded Debt, Principal Payments

The School District made principal payments on bonded, long-term debt obligations which reduced the amount of the School District's long-term liabilities as follows:

District's 2000 Debt Fund Principal Obligation:

Principal obligation at June 30, 2007	\$ 16,430,000
Less: Principal payment made during fiscal year ended June 30, 2008	<u>(1,330,000)</u>
Principal obligation at June 30, 2008	<u>\$ 15,100,000</u>

C. Net Investment in Capital Assets

The School District's net investment in capital assets increased by \$ 869,810 during the fiscal year. This can be summarized as follows:

Beginning investment in capital outlay – net at July 1, 2007	\$ 32,319,285
Additions to capital outlay at cost – fiscal year ended June 30, 2008	2,386,327
Depreciation expense for fiscal year ended June 30, 2008	(1,113,427)
Disposal of capital assets (net book value)	<u>(403,090)</u>
Ending investment in capital outlay – net at June 30, 2008	<u>\$ 33,189,095</u>

The district utilized the services of Valuation Resources Management during the year to complete an inventory and appraisal of its capital assets. The beginning balance was restated to reflect the adjustments of certain capital assets as a result of that inventory.

Results of Operations

	<u>Year Ended June 30</u>	
	<u>2008</u>	<u>2007</u>
Revenues		
General revenues:		
Property taxes levied for general fund and building and site operations	\$ 4,752,062	\$ 4,679,943
Property taxes levied for debt service	2,226,171	2,215,600
State of Michigan state aid - unrestricted	17,146,844	16,684,729
Other general revenues	<u>1,229,015</u>	<u>938,110</u>
Total general revenues	<u>25,354,092</u>	<u>24,518,382</u>
Operating grants:		
General fund instruction	2,148,129	1,429,550
Food services	<u>368,933</u>	<u>309,198</u>
Total operating grants	<u>2,517,062</u>	<u>1,738,748</u>

	Year ended June 30	
	2008	2007
Revenues (Continued)		
Charges for services:		
Food services	\$ 719,034	\$ 698,294
Other charges	280,676	292,198
Total charges for services	999,710	990,492
Total revenues	28,870,864	27,247,622
Expenses		
Instruction	14,882,642	14,321,169
Support services	7,645,578	7,577,039
Community services	83,341	79,307
Food services	1,006,215	914,135
Athletics	472,579	478,092
Depreciation - unallocated	1,113,427	1,045,287
Interest on long term debt	817,494	899,655
Total expenses	26,021,276	25,314,684
Increase in net assets	2,849,588	1,932,938
Beginning net assets, as restated	20,099,929	18,166,991
Ending net assets	\$ 22,949,517	\$ 20,099,929

State of Michigan Unrestricted Aid (state foundation allowance):

The State of Michigan aid, unrestricted, is determined by the following variables:

- State of Michigan legislation, i.e., the State Aid Act, per student foundation allowance
- Student enrollment - Blended at 75 percent of current year's September count and 25 percent of the prior year's February count
- The School District's non-homestead levy

Per Student Foundation Allowance

Annually since 1994, the State of Michigan sets the per student foundation allowance for each school district. The Lakeshore Public Schools' foundation allowance was \$7,204 for the 2007-2008 fiscal year. This is an increase of \$119 per student over the 2006-2007 foundation allowance of \$7,085 per student.

Student Enrollment

The School District's student enrollment for the fall count of 2007-2008 was 2,980 students. The School District's enrollment increased by 76 full time equated (FTE) students from the prior school year's student count. The following summarizes fall student enrollments in the past several years:

	Student FTE	Change from Prior Year
2007-2008	2,980	76
2006-2007	2,904	99
2005-2006	2,805	(32)
2004-2005	2,837	9
2003-2004	2,828	(39)
2002-2003	2,867	(27)
2001-2002	2,894	5
2000-2001	2,889	(43)

Subsequent to the year ended June 30, 2008, preliminary student enrollments for the 2008-2009 school year are at about 2,916 FTE which indicates that enrollments will be down approximately 64 students from 2007-2008, although total elementary enrollments in grades K-5 continue to increase. In June 2008, the School District's budget projected enrollments of 2,967 for 2008-2009. Thus, preliminary enrollments are less than projections by approximately 51 students.

Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)

The School District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the state equalized value, which is, theoretically, 50 percent of the market value.

The School District's non-homestead property levy for the 2007-2008 fiscal year was \$3,714,526. The non-homestead tax levy increased by 0.2 percent over the prior fiscal year. The amount of unpaid personal property taxes at fiscal year end June 30, 2007 was \$37,676, or approximately 1.01 percent of the total non-homestead levy. For fiscal year ended June 30, 2008, the School District wrote off \$12,070 of prior year's non-homestead taxes that had not been collected.

The following summarizes the School District's non-homestead levy the past five years:

Fiscal Year	Non-homestead Tax Levy	Percent Increase (Decrease)
2007-2008	\$ 3,714,526	0.2
2006-2007	3,704,872	11.6
2005-2006	3,320,497	6.9
2004-2005	3,106,841	10.8
2003-2004	2,803,542	(1.8)
Five Year Average		5.5

Debt Fund Property and Industrial Facility in Lieu of Taxes

The School District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the School District collects IFT (Industrial Facilities Taxes) in lieu of taxes that are essentially taxed at 50 percent of the regular tax rate.

For 2007-2008, the School District's debt millage levy was 3.2 mills, which generated a levy of \$2,175,360. As of June 30, 2008, \$2,580 of personal debt taxes were not paid to the district by the local Townships or Berrien County who collect the taxes on the district's behalf. The unpaid taxes represent 0.12 percent of the total levy. The School District collected \$36,998 of debt fund In Lieu of Taxes during the fiscal year.

The School District collected \$36,998 of debt fund IFT In Lieu of Taxes during the fiscal year.

Building & Site (Sinking Fund)

The School District's voters in May 2005 approved a Building & Site levy for major facility improvements. During the 2007-2008 school year, the district collected \$1,017,360 in Building & Site Fund property taxes and an additional \$4,197 in delinquent tax penalties and \$15,801 of Industrial Facilities taxes in lieu of property taxes.

General Fund Budget and Actual Revenues and Expenditures

General Fund Expenditures and Transfers Out Budget vs. Actual Five-year History

<u>Fiscal Year</u>	<u>Expenditures and Transfers out Original budget</u>	<u>Expenditures and Transfers out Final budget</u>	<u>Expenditures and Transfers out Final actual</u>	<u>Variance Actual and Original budget</u>	<u>Variance Actual and Final budget</u>
2003-2004	\$ 20,510,169	\$ 20,450,082	\$ 20,161,840	-1.70%	-1.41%
2004-2005	20,570,016	21,186,289	20,789,886	1.07%	-1.87%
2005-2006	21,182,562	21,586,098	21,056,695	-0.59%	-2.45%
2006-2007	21,920,124	22,371,097	21,927,409	0.03%	-1.98%
2007-2006	22,632,901	23,115,387	22,960,032	1.45%	-0.67%
	Five-year average actual over (under) budget			0.05%	-1.68%

General Fund Revenues and Transfers In Budget vs. Actual Five-year History (Continued)

<u>Fiscal Year</u>	<u>Revenues and Transfers In Original budget</u>	<u>Revenues and Transfers In Final budget</u>	<u>Revenues and Transfers In Final actual</u>	<u>Variance Actual and Original budget</u>	<u>Variance Actual and Final budget</u>
2003-2004	\$ 20,395,472	\$ 20,203,522	\$ 20,222,249	-0.85%	0.09%
2004-2005	20,322,152	20,805,431	20,771,510	2.21%	-0.16%
2005-2006	20,910,648	21,289,160	21,271,176	1.72%	-0.08%
2006-2007	21,557,817	22,195,396	22,206,253	3.01%	0.05%
2007-2008	22,443,263	23,280,315	23,500,002	4.71%	0.94%
Five-year average actual over (under) budget				2.16%	0.17%

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Lakeshore Public Schools amends its budget quarterly during the school year. For fiscal year June 30, 2008, the budget was amended in October 2007 and January, April, and June 2008. The June 2008 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

Revenues:

	<u>Amount</u>	<u>Percent</u>
Total revenues original budget	\$ 22,443,263	100.0
Total revenues final budget	23,280,315	103.7
	<u>\$ 837,052</u>	<u>3.7</u>

With the June 2007 original budget, the School district had projected fall 2007 enrollments as 2,915 FTE students. Actual enrollments were 2,980. This increase of 65 FTE students increased revenues by \$351,195 (i.e., \$7,204 per student foundation allowance x 65 students x 75 percent.) Additionally, the School District's original budget assumed that the State's foundation allowance per student would be \$7,108. The actual foundation allowance per student was \$7,204. Based on a "blended" student count of 2,962 FTE students, the district received an additional \$352,478 in State aid more than originally budgeted.

Expenditures:

	<u>Amount</u>	<u>Percent</u>
Total expenditures original budget	\$ 22,632,901	100.0
Total expenditures final budget	23,115,397	102.1
	<u>\$ 482,496</u>	<u>2.1</u>

Upon determination of the expected enrollment increase, the Board of Education approved hiring of additional teaching staff in July and August 2007 before the start of the school year. These positions included new sections of elementary classrooms and a new Middle School Interventionist position to work with At Risk students in the Middle School. The district also increased budgets for text books during the year by \$51,314 in basic instruction grades K-12 to pay for the purchase of new textbook adoptions.

The School District budgeted a conservative amount initially for capital outlay. The increase in revenues due to increased enrollments and donations which were made to the district allowed the district to increase the capital outlay budget during the year by \$184,039 which enabled the district to purchase an additional 88-passenger school bus (\$84,562) and to purchase because of the local donations \$76,644 of replacement equipment for the high school weight room.

Budgeting Targets

Under the State of Michigan's Uniform Budget and Accounting Act, school districts are required by law to expend less than the amount appropriated by the Board of Education. As a result, the district's financial management has consistently tried to budget expenditures so that ending actual expenditures are on average between 1% and 2% less than an ending conservative budget for expenditures.

BASIC FINANCIAL STATEMENTS

LAKESHORE PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2008

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 5,366,756
Accounts receivable	3,723,361
Inventory	57,632
Prepaid items	51,264
Total current assets	<u>9,199,013</u>
Noncurrent assets:	
Land	375,181
Construction in progress	966,851
Capital assets, depreciable	46,681,954
Less accumulated depreciation	<u>(14,834,891)</u>
Total noncurrent assets	<u>33,189,095</u>
Total assets	<u>42,388,108</u>
Liabilities	
Current liabilities:	
Accounts payable	1,421,760
Accrued expenses	2,152,056
Accrued interest payable on long-term debt	126,178
Unearned revenue	56,139
Current portion of compensated absences and severance pay	21,811
Current portion of installment notes payable	50,919
Current portion of bonds payable	1,489,080
Total current liabilities	<u>5,317,943</u>
Noncurrent liabilities:	
Bonds payable	13,714,612
Installment notes payable	18,793
Compensated absences and severance pay	<u>387,243</u>
Total noncurrent liabilities	<u>14,120,648</u>
Total liabilities	<u>19,438,591</u>
Net assets	
Invested in capital assets, net of related debt	18,019,383
Restricted for debt service	405,966
Restricted for capital projects	932,168
Restricted for athletics	12,614
Restricted for food service	260,021
Restricted for bookstore	104,257
Unrestricted	<u>3,215,108</u>
Total net assets	<u>\$ 22,949,517</u>

The accompanying notes are an integral part of these financial statements.

LAKESHORE PUBLIC SCHOOLS

Statement of Activities For the Year Ended June 30, 2008

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 14,882,642	\$ 58,076	\$ 2,148,129	\$ (12,676,437)
Supporting services	7,645,578	85,466	-	(7,560,112)
Community services	83,341	30,190	-	(53,151)
Food services	1,006,215	719,034	368,933	81,752
Athletics	472,579	106,944	-	(365,635)
Depreciation - unallocated	1,113,427	-	-	(1,113,427)
Interest on long-term debt	817,494	-	-	(817,494)
Total governmental activities	<u>\$ 26,021,276</u>	<u>\$ 999,710</u>	<u>\$ 2,517,062</u>	(22,504,504)
General revenues:				
Property taxes - operations				4,752,062
Property taxes - debt service				2,226,171
State of Michigan aid - unrestricted				17,146,844
Unrestricted investment earnings				203,060
Other				1,025,955
Total general revenues				<u>25,354,092</u>
Change in net assets				2,849,588
Net assets, beginning of year, as restated				<u>20,099,929</u>
Net assets, end of year				<u><u>\$ 22,949,517</u></u>

The accompanying notes are an integral part of these financial statements.

LAKESHORE PUBLIC SCHOOLS

Balance Sheet Governmental Funds June 30, 2008

	<u>General</u>	<u>Public Improvement</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Assets				
Cash and investments	\$ 2,752,649	\$ 1,285,791	\$ 1,328,316	\$ 5,366,756
Accounts receivable	3,612,697	-	110,664	3,723,361
Due from other funds	60,535	-	36,461	96,996
Inventory	39,795	-	17,837	57,632
Prepaid items	50,121	-	1,143	51,264
Total assets	<u>\$ 6,515,797</u>	<u>\$ 1,285,791</u>	<u>\$ 1,494,421</u>	<u>\$ 9,296,009</u>
Liabilities				
Accounts payable	\$ 665,652	\$ 447,692	\$ 308,416	\$ 1,421,760
Accrued expenditures	2,152,056	-	-	2,152,056
Due to other funds	36,334	-	60,662	96,996
Deferred revenue	37,593	-	122,238	159,831
Total liabilities	<u>2,891,635</u>	<u>447,692</u>	<u>491,316</u>	<u>3,830,643</u>
Fund balance				
Reserved for:				
Inventory	39,795	-	17,837	57,632
Prepaid items	50,121	-	1,143	51,264
Encumbrances	129,734	-	-	129,734
Unreserved:				
Undesignated, reported in nonmajor special revenue funds	-	-	357,912	357,912
Undesignated, reported in nonmajor debt service funds	-	-	532,144	532,144
Undesignated, reported in nonmajor capital projects funds	-	-	94,069	94,069
Undesignated	3,404,512	838,099	-	4,242,611
Total fund balance	<u>3,624,162</u>	<u>838,099</u>	<u>1,003,105</u>	<u>5,465,366</u>
Total liabilities and fund balance	<u>\$ 6,515,797</u>	<u>\$ 1,285,791</u>	<u>\$ 1,494,421</u>	<u>\$ 9,296,009</u>

The accompanying notes are an integral part of these financial statements.

LAKESHORE PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$ 5,465,366
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criterion for revenue recognition is met.

Add - deferred long-term receivables	103,692
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	48,023,986
Deduct - accumulated depreciation	(14,834,891)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable and installment notes	(15,273,404)
Deduct - accrued interest on bonds payable	(126,178)
Deduct - compensated absences/early retirement	(409,054)

Net assets of governmental activities	<u>\$ 22,949,517</u>
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The accompanying notes are an integral part of these financial statements.

LAKESHORE PUBLIC SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2008

	<u>General</u>	<u>Public Improvement</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues				
Local sources	\$ 4,110,092	\$ 827,504	\$ 4,259,724	\$ 9,197,320
State sources	18,208,722	-	37,624	18,246,346
Federal sources	512,725	-	331,309	844,034
Interdistrict sources	598,825	-	-	598,825
Miscellaneous	9,638	-	-	9,638
	<u>23,440,002</u>	<u>827,504</u>	<u>4,628,657</u>	<u>28,896,163</u>
Expenditures				
Current:				
Instruction services	14,555,310	-	-	14,555,310
Supporting services	7,492,198	-	77,458	7,569,656
Community services	83,341	-	-	83,341
Food service	-	-	1,007,169	1,007,169
Athletic services	-	-	472,579	472,579
Debt service:				
Principal	50,918	-	1,330,000	1,380,918
Interest expense	4,583	-	821,774	826,357
Capital outlay	417,845	609,825	1,359,491	2,387,161
	<u>22,604,195</u>	<u>609,825</u>	<u>5,068,471</u>	<u>28,282,491</u>
Revenue over (under) expenditures	<u>835,807</u>	<u>217,679</u>	<u>(439,814)</u>	<u>613,672</u>
Other financing sources (uses)				
Transfers in	60,000	-	355,837	415,837
Transfers out	(355,837)	-	(60,000)	(415,837)
	<u>(295,837)</u>	<u>-</u>	<u>295,837</u>	<u>-</u>
Net changes in fund balances	539,970	217,679	(143,977)	613,672
Fund balances, beginning of year	<u>3,084,192</u>	<u>620,420</u>	<u>1,147,082</u>	<u>4,851,694</u>
Fund balances, end of year	<u><u>\$ 3,624,162</u></u>	<u><u>\$ 838,099</u></u>	<u><u>\$ 1,003,105</u></u>	<u><u>\$ 5,465,366</u></u>

The accompanying notes are an integral part of these financial statements.

LAKESHORE PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ 613,672

Amounts reported for *governmental activities* in the statement of activities are different because:

Long-term receivables are reported as revenue when earned on the statement of activities while the governmental funds report these balances as revenue when the availability criterion for revenue recognition is met.

Deduct - change in deferred long-term receivables (25,299)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay 2,386,327

Deduct - depreciation expense (1,113,427)

Deduct - loss on disposal of capital assets (403,090)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.

Add - principal payments on long-term debt 1,380,918

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds 8,863

Add - decrease in the accrual for compensated absences 1,624

Change in net assets of governmental activities \$ 2,849,588

The accompanying notes are an integral part of these financial statements.

LAKESHORE PUBLIC SCHOOLS
Statement of Revenue, Expenditures
and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2008

	Budget			Variance -
	Original	Amended	Actual	Over/(Under)
				Budget
Revenue				
Local sources	\$ 4,047,200	\$ 3,936,700	\$ 4,110,092	\$ 173,392
State sources	17,339,098	18,179,942	18,208,722	28,780
Federal sources	443,965	486,462	512,725	26,263
Interdistrict sources	560,000	607,211	598,825	(8,386)
Other sources	10,000	10,000	9,638	(362)
Total revenue	22,400,263	23,220,315	23,440,002	219,687
Expenditures				
Current:				
Instruction:				
Basic programs	11,478,487	11,878,389	11,843,616	(34,773)
Added needs	2,657,750	2,554,770	2,548,626	(6,144)
Intergovernmental payments	208,272	181,701	163,068	(18,633)
Supporting services:				
Pupil services	1,335,907	1,343,323	1,349,849	6,526
Instructional staff	820,891	860,423	810,529	(49,894)
Board and central administration	538,572	535,802	532,183	(3,619)
Building administration	1,220,202	1,205,064	1,198,774	(6,290)
Operation, transportation, and central	3,646,075	3,626,410	3,600,863	(25,547)
Community services	106,351	92,972	83,341	(9,631)
Debt service:				
Principal	50,918	50,918	50,918	-
Interest expense	4,572	4,672	4,583	(89)
Capital outlay	241,067	425,106	417,845	(7,261)
Total expenditures	22,309,064	22,759,550	22,604,195	(155,355)
Revenue over (under) expenditures	91,199	460,765	835,807	375,042
Other financing sources (uses)				
Transfers in	43,000	60,000	60,000	-
Transfers out	(323,837)	(355,837)	(355,837)	-
Total other financing sources (uses)	(280,837)	(295,837)	(295,837)	-
Net changes in fund balance	(189,638)	164,928	539,970	375,042
Fund balance, beginning of year	3,084,192	3,084,192	3,084,192	-
Fund balance, end of year	\$ 2,894,554	\$ 3,249,120	\$ 3,624,162	\$ 375,042

The accompanying notes are an integral part of these financial statements.

LAKESHORE PUBLIC SCHOOLS
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

Assets

Cash and cash equivalents	\$ 361,014
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Liabilities

Accounts payable	\$ 79,899
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Due to student groups	<u>281,115</u>
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Total liabilities	<u>\$ 361,014</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lakeshore Public Schools (the "District") consistently applied in the preparation of the accompanying financial statements follows.

The Reporting Entity

The District is governed by an elected seven-member Board of Education. As required by generally accepted accounting principles, these financial statements present the reporting entity of the Lakeshore Public Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized in identifying the District's reporting entity which includes no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund follows the accrual basis of accounting, but does not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

Property taxes, expenditure-driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *public improvement fund* accounts for the accumulation and disbursement of funds for construction projects and technology improvement projects.

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service funds* account for the accumulation of resources which are restricted for the payment of principal and interest on bond issues.

The *capital project fund* accounts for the accumulation and disbursement of funds for construction projects.

The *agency fund* accounts for resources held on the behalf of other individuals and governments. The District maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The District considers the debt service payment schedule to be an adequate budgetary control. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2008. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Property Taxes

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2007 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and Debt Retirement Funds is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Revenue

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. For Lakeshore Public Schools, all properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100 percent of the taxes which are due September 15.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the District Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventory

Inventory consists of office and other supplies. Inventory is stated at cost (first-in, first-out). Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased.

Prepaid Items

Payments to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and other equipment	5-20
Buses and other vehicles	5-10

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

Compensated Absences

Most employees of the District are compensated for leaves of absences chargeable to vacation days. Each school year, the covered employees are credited with a number of vacation days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of vacation days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16. This liability is shown on the statement of net assets.

Reserves and Designations of Fund Balance/Restricted Net Assets

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Designations of fund balance are established to identify amounts set aside by the Board of Education for future expenditures.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

Durant Related Issues

Under Public Act 142 of 1997, enacted in November 1997 as part of the *Durant* Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the *Durant v. State of Michigan* case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to *Durant* plaintiffs. Half the settlement amount was to be received in ten annual payments; the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA) or in fifteen annual payments. Lakeshore Public Schools elected to participate in the special bonding program.

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

The remaining 50% of the settlement which was being received over ten years from April 1999 through May 2008, was recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding represented 78% of the District's general fund revenue during the 2008 fiscal year.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2008, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Supporting services:			
Pupil services	\$ 1,343,323	\$ 1,349,849	\$ 6,526

4. CAPITAL PROJECTS FUND COMPLIANCE

The Building and Site Fund records capital project activities funded with a Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the State of Michigan School Code.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

5. DEPOSITS AND INVESTMENTS

Cash and investments are comprised of the following at year-end:

	Governmental Activities	Fiduciary Activities	Total
Petty cash	\$ 357	\$ -	\$ 357
Deposits	4,519,904	361,014	4,880,918
Investments	846,495	-	846,495
Total cash and investments	\$ 5,366,756	\$ 361,014	\$ 5,727,770

State statutes authorize the District to invest in:

- Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Under Board of Education policy, the District is allowed to invest in U.S. Treasury obligations, bankers' acceptances, commercial paper rated high or upper medium investment grade (e.g., A1P1 or A2P2) at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's investment policy is more restrictive than state statutory authority as listed above.

The District has designated four banks for the deposit of its funds. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank investment pool	Various	\$ 497,424	AAAm S&P
Michigan Liquid Asset Fund	Various	5,946	AAAm S&P
Investment pool – MBIA class	Various	343,125	AAA/VI+ Fitch
		<u>\$ 846,495</u>	

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the District's deposits or investments had fixed maturities at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of District's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified above. The investment policy does have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As of year end, \$4,572,843 of the District's bank balance of \$4,972,843 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the above mutual fund investments the District's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The District's investment policy places a \$3,000,000 limit on the amount the District may invest in any one issuer. The District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

6. RECEIVABLES

Receivables as of year-end for the District's individual major funds and the nonmajor and other funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Taxes – net of allowance of \$41,496	\$ -	\$ -	\$ -
Trade	127,556	-	127,556
Interest	2,806	-	2,806
Intergovernmental	3,482,335	110,664	3,592,999
Total governmental activities	<u>\$ 3,612,697</u>	<u>\$ 110,664</u>	<u>\$ 3,723,361</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 89,611</u>	<u>\$ 89,611</u>

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

7. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Restatements	Additions	Dispositions	Balance June 30, 2008
Governmental activities					
Nondepreciable capital assets:					
Land	\$ 375,181	\$ -	\$ -	\$ -	\$ 375,181
Construction in progress	54,456	-	966,851	(54,456)	966,851
Total nondepreciable capital assets	429,637	-	966,851	(54,456)	1,342,032
Depreciable capital assets:					
Buildings and improvements	38,557,691	(93,780)	894,789	(394,391)	38,964,309
Buses and other vehicles	1,180,299	128,116	197,563	(249,398)	1,256,580
Furniture and equipment	6,772,133	52,860	381,580	(745,508)	6,461,065
Total depreciable capital assets	46,510,123	87,196	1,473,932	(1,389,297)	46,681,954
Accumulated depreciation:					
Buildings and improvements	(9,314,064)	(573)	(704,992)	263,432	(9,756,197)
Buses and other vehicles	(824,930)	(48,048)	(94,176)	213,602	(753,552)
Furniture and equipment	(4,520,603)	547	(314,259)	509,173	(4,325,142)
Total accumulated depreciation	(14,659,597)	(48,074)	(1,113,427)	986,207	(14,834,891)
Total capital assets being depreciated, net	31,850,526	39,122	360,505	(403,090)	31,847,063
Governmental activities capital assets, net	\$ 32,280,163	\$ 39,122	\$ 1,327,356	\$ (457,546)	\$ 33,189,095

Depreciation expense was reported as unallocated on the statement of activities because the District considers its assets to impact multiple activities and allocation is not practical.

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations. The composition of interfund balances is as follows:

Due to / from funds	Due to Fund	Due from Fund
General Fund	\$ 36,334	\$ 60,535
Nonmajor Funds	60,535	36,334
Total	\$ 96,869	\$ 96,869

LAKESHORE PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2008

Transfers primarily reflect subsidies allocated from the General Fund.

	<u>Transfers In</u>	<u>Transfers Out</u>
Interfund Transfers		
General Fund	\$ 60,000	\$ 355,837
Nonmajor Funds:		
Athletics special revenue	355,837	-
Food service special revenue	-	60,000
	<u> </u>	<u> </u>
Total	<u>\$ 415,837</u>	<u>\$ 415,837</u>

9. LONG-TERM DEBT

The District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include compensated absences and severance pay. The following is a summary of long-term debt transactions of the District for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
2000 General Obligation Bonds due in annual installments of \$1,000,000 to \$1,900,000 plus interest at 5.00% through 2018	\$16,430,000	\$ -	\$(1,330,000)	\$15,100,000	\$1,475,000
1998 School Improvement Bonds (Durant Settlement) due in amounts ranging from \$12,826 to \$43,223 plus interest at 4.76% through 2013	103,692	-	-	103,692	14,080
Installment notes payable	120,630	-	(50,918)	69,712	50,919
Subtotal installment debt	16,654,322	-	(1,380,918)	15,273,404	1,539,999
Severance pay/compensated absences	410,678	49,371	(50,995)	409,054	21,811
Total long-term debt	<u>\$17,065,000</u>	<u>\$49,371</u>	<u>\$(1,431,913)</u>	<u>\$15,682,458</u>	<u>\$1,561,810</u>

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

Following is a summary of future bond and loan principal maturities and interest requirements:

	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,539,999	\$ 761,160
2010	1,658,543	684,641
2011	1,805,452	602,314
2012	1,876,187	512,078
2013	1,943,223	427,570
2014-2018	6,450,000	872,500
Total	\$ 15,273,404	\$ 3,860,263

Compensated absences and severance pay are expected to be liquidated by the general and food service funds.

10. PUBLIC ENTITY RISK (INSURANCE) POOL – SELF-INSURANCE PLAN

Lakeshore Public Schools participates in a public entity risk (insurance) pool with other school districts in the SET-SEG Property/Casualty Pool, Inc. (a nonprofit corporation). This is a self-insurance fund which provides members with loss protection for property and casualty damages. The Pool was created on May 23, 1985 and organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. There have been no significant reductions in coverage and settlements have not exceeded insurance coverage during the past 3 years.

The District made a contribution of \$95,929 to the Pool for the 2008 fiscal year. A member's contribution to the Pool in excess of its share of claim losses, expenses, and other costs may be refunded as determined by the Board of Directors. Lakeshore Public Schools received \$27,485 for the fiscal year ended June 30, 2008.

The Pool does not maintain separate funds for members and consequently the District's share of the total assets and total equity is unknown. Audited financial statements of the fund are available.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the District carried commercial insurance and participated in a public entity risk pool. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

11. RETIREMENT PLAN

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate from July to September was 17.74% and from October through June was 16.72% of covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were approximately, \$2,273,000, \$2,319,000, and \$2,083,000, respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

12. CONTINGENCIES

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

13. COMMITMENTS

The District has contracts outstanding for remaining costs of approximately \$803,870 for various construction projects and capital purchases.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2008

14. SUBSEQUENT EVENT

Subsequent to year-end, the District entered into a construction contract in the amount of \$70,137 to construct an enclosure wall and entrance gate for the athletic field.

15. RESTATEMENT

Beginning net assets were increased by \$39,122 to adjust capital assets in connection with a physical inventory.

* * * * *

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

GENERAL FUND

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Over/(Under) Budget</u>	<u>2007 Actual</u>
Revenue				
Local sources:				
Current property taxes	\$ 3,647,700	\$ 3,699,680	\$ 51,980	\$ 3,690,065
Delinquent fees and other taxes	14,000	14,103	103	12,492
Earnings on investments	101,000	104,643	3,643	134,467
Community enrichment	-	30,190	30,190	28,575
Other local revenues	174,000	261,476	87,476	137,381
Total local sources	3,936,700	4,110,092	173,392	4,002,980
State sources:				
Foundation grant	17,163,480	17,172,143	8,663	16,710,029
At-risk categorical	227,700	221,005	(6,695)	195,949
Special education	597,312	597,313	1	85,898
Other	191,450	218,261	26,811	146,502
Total state sources	18,179,942	18,208,722	28,780	17,138,378
Federal sources:				
Title I	80,377	63,914	(16,463)	64,580
At-risk categorical	333,020	382,129	49,109	311,291
Other	73,065	66,682	(6,383)	82,722
Total federal sources	486,462	512,725	26,263	458,593
Interdistrict Sources:				
County special education tax	522,211	522,211	-	500,176
Other	85,000	76,614	(8,386)	42,431
Total interdistrict sources	607,211	598,825	(8,386)	542,607
Miscellaneous	10,000	9,638	(362)	3,695
Total revenue	23,220,315	23,440,002	219,687	22,146,253
Expenditures				
Instructional:				
Basic programs:				
Elementary:				
Salaries	3,164,842	3,132,227	(32,615)	2,975,308
Benefits	1,472,663	1,456,698	(15,965)	1,387,559
Purchased services	130,155	122,424	(7,731)	18,137
Supplies, materials, and other	142,706	145,117	2,411	345,829
Total elementary	4,910,366	4,856,466	(53,900)	4,726,833

(Continued)

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	Amended Budget	Actual	Variance - Over/(Under) Budget	2007 Actual
Expenditures (continued)				
Instructional (continued):				
Basic programs (continued):				
Middle school:				
Salaries	\$ 2,153,464	\$ 2,102,192	\$ (51,272)	\$ 1,960,235
Benefits	889,658	871,321	(18,337)	820,097
Purchased services	72,350	73,198	848	12,242
Supplies, materials, and other	134,591	126,472	(8,119)	62,853
Total middle school	3,250,063	3,173,183	(76,880)	2,855,427
Senior high school:				
Salaries	2,269,980	2,362,026	92,046	2,331,600
Benefits	978,239	988,058	9,819	1,013,533
Purchased services	102,000	100,026	(1,974)	28,729
Supplies, materials, and other	252,329	240,219	(12,110)	151,908
Total senior high school	3,602,548	3,690,329	87,781	3,525,770
Preschool:				
Salaries	50,688	54,307	3,619	49,501
Benefits	12,524	13,124	600	12,252
Purchased services	1,000	385	(615)	216
Supplies, materials, and other	23,219	23,337	118	3,464
Total preschool	87,431	91,153	3,722	65,433
Other basic programs	27,981	32,485	4,504	22,567
Total basic programs	11,878,389	11,843,616	(34,773)	11,196,030
Added needs:				
Special education:				
Salaries	1,236,086	1,265,359	29,273	1,278,698
Benefits	534,053	537,482	3,429	534,592
Purchased services	25,530	19,515	(6,015)	172
Supplies, materials, and other	22,022	19,332	(2,690)	25,558
Total special education	1,817,691	1,841,688	23,997	1,839,020
Vocational education:				
Salaries	427,260	410,292	(16,968)	407,503
Benefits	160,522	154,196	(6,326)	153,595
Purchased services	12,393	10,230	(2,163)	7,376
Supplies, materials, and other	61,285	61,684	399	69,397
Total vocational education	661,460	636,402	(25,058)	637,871

(Continued)

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	Amended Budget	Actual	Variance - Over/(Under) Budget	2007 Actual
Expenditures (continued)				
Instruction (continued):				
Compensatory education:				
Salaries	\$ 43,586	\$ 37,301	\$ (6,285)	\$ 51,851
Benefits	10,740	9,099	(1,641)	12,730
Supplies, materials, and other	21,293	24,136	2,843	-
Total compensatory education	75,619	70,536	(5,083)	64,581
Total added needs	2,554,770	2,548,626	(6,144)	2,541,472
Transfer payments to other governments	181,701	163,068	(18,633)	168,968
Total instruction	14,614,860	14,555,310	(59,550)	13,906,470
Supporting services:				
Pupil services				
Pupil services:				
Attendance:				
Salaries	33,596	33,556	(40)	32,202
Benefits	15,546	15,473	(73)	12,731
Total pupil services	49,142	49,029	(113)	44,933
Guidance:				
Salaries	550,137	558,154	8,017	535,708
Benefits	244,742	244,997	255	234,626
Purchased services	1,500	847	(653)	4,354
Supplies, materials, and other	12,500	11,367	(1,133)	8,445
Total guidance	808,879	815,365	6,486	783,133
Speech pathology:				
Salaries	139,731	134,730	(5,001)	132,864
Benefits	60,698	61,125	427	59,074
Purchased services	-	163	163	47
Supplies, materials, and other	1,584	721	(863)	1,514
Total speech pathology	202,013	196,739	(5,274)	193,499
Social worker:				
Salaries	59,463	59,463	-	57,461
Benefits	27,759	27,725	(34)	27,365
Purchased services	500	-	(500)	1,200
Supplies, materials, and other	1,235	792	(443)	35
Total social worker	88,957	87,980	(977)	86,061
Teacher consultant:				
Salaries	72,407	85,574	13,167	83,914
Benefits	30,972	34,641	3,669	32,853
Supplies, materials, and other	2,900	2,874	(26)	-
Total teacher consultant	106,279	123,089	16,810	116,767

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	Amended Budget	Actual	Variance - Over/(Under) Budget	2007 Actual
Expenditures (continued)				
Supporting services (continued):				
Pupil services (continued):				
Pupil activities and supervision:				
Salaries	\$ 42,100	\$ 39,434	\$ (2,666)	\$ 35,875
Benefits	10,424	6,588	(3,836)	6,816
Purchased services	10,000	7,975	(2,025)	5,892
Supplies, materials, and other	25,529	23,650	(1,879)	16,586
Total pupil activities and supervision	88,053	77,647	(10,406)	65,169
Total pupil services	1,343,323	1,349,849	6,526	1,289,562
Instructional staff:				
Staff improvement:				
Salaries	38,500	37,398	(1,102)	38,944
Benefits	9,517	9,147	(370)	9,830
Purchased services	67,500	52,201	(15,299)	29,933
Supplies, materials, and other	3,761	-	(3,761)	4,727
Total staff improvement	119,278	98,746	(20,532)	83,434
Library / Media center:				
Salaries	185,999	174,196	(11,803)	231,731
Benefits	60,240	56,369	(3,871)	84,871
Purchased services	2,653	1,920	(733)	1,924
Supplies, materials, and other	66,163	65,460	(703)	36,069
Total Library / Media center	315,055	297,945	(17,110)	354,595
Technology support:				
Salaries	118,788	117,243	(1,545)	152,102
Benefits	64,810	67,818	3,008	81,544
Purchased services	15,200	8,366	(6,834)	20,400
Supplies, materials, and other	64,800	62,958	(1,842)	56,431
Total technology support	263,598	256,385	(7,213)	310,477
Instructional supervision:				
Salaries	111,544	108,877	(2,667)	100,928
Benefits	36,270	33,438	(2,832)	34,842
Purchased services	8,730	9,097	367	3,433
Supplies, materials, and other	5,948	6,041	93	2,009
Total technology support	162,492	157,453	(5,039)	141,212
Total instructional staff	860,423	810,529	(49,894)	889,718

(Continued)

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	Amended Budget	Actual	Variance - Over/(Under) Budget	2007 Actual
Expenditures (continued)				
Supporting services (continued):				
Board and central administration:				
Board of education:				
Salaries	\$ 2,996	\$ 2,840	\$ (156)	\$ 2,140
Benefits	4	3	(1)	2
Purchased services	54,500	41,519	(12,981)	57,871
Supplies, materials, and other	11,700	14,132	2,432	4,747
Total board of education	69,200	58,494	(10,706)	64,760
Central administration:				
Salaries	316,420	320,732	4,312	304,366
Benefits	126,034	132,773	6,739	121,395
Purchased services	19,079	16,119	(2,960)	13,580
Supplies, materials, and other	5,069	4,065	(1,004)	4,283
Total central administration	466,602	473,689	7,087	443,624
Total board and central administration	535,802	532,183	(3,619)	508,384
Building administration:				
Salaries	677,199	682,350	5,151	746,031
Benefits	298,696	287,517	(11,179)	330,573
Purchased services	166,238	166,091	(147)	75,609
Supplies, materials, and other	62,931	62,816	(115)	45,447
Total building administration	1,205,064	1,198,774	(6,290)	1,197,660
Business, operations, and central services:				
Fiscal services:				
Salaries	175,329	175,841	512	168,984
Benefits	82,668	82,291	(377)	80,168
Purchased services	3,418	2,927	(491)	1,229
Supplies, materials, and other	7,088	6,657	(431)	6,189
Total fiscal services	268,503	267,716	(787)	256,570
Internal services:				
Salaries	28,667	26,858	(1,809)	22,639
Benefits	7,156	6,662	(494)	5,767
Purchased services	29,500	27,131	(2,369)	24,719
Supplies, materials, and other	4,800	2,970	(1,830)	7,313
Total internal services	70,123	63,621	(6,502)	60,438
Other business:				
Purchased services	13,159	2,782	(10,377)	13,659
Supplies, materials, and other	20,500	19,276	(1,224)	34,597
Total other business	33,659	22,058	(11,601)	48,256

(Continued)

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	Amended Budget	Actual	Variance - Over/(Under) Budget	2007 Actual
Expenditures (continued)				
Supporting services (continued):				
Business, operations, and central services (continued):				
Operation and maintenance:				
Salaries	\$ 707,600	\$ 705,980	\$ (1,620)	\$ 713,269
Benefits	411,645	409,355	(2,290)	403,325
Purchased services	598,347	600,231	1,884	435,481
Supplies, materials, and other	681,018	679,266	(1,752)	652,773
Total operation and maintenance	2,398,610	2,394,832	(3,778)	2,204,848
Student transportation				
Salaries	414,500	414,780	280	400,595
Benefits	140,920	135,716	(5,204)	132,347
Purchased services	49,269	51,292	2,023	54,459
Supplies, materials, and other	141,843	136,033	(5,810)	131,937
Total student transportation	746,532	737,821	(8,711)	719,338
Central services - information:				
Salaries	-	-	-	5,425
Benefits	10	9	(1)	1,789
Purchased services	60,381	57,828	(2,553)	55,753
Supplies, materials, and other	3,000	5,788	2,788	9
Total central services - information	63,391	63,625	234	62,976
Planning and research:				
Purchase services	1,450	2,386	936	675
Supplies, materials, and other	100	-	(100)	-
Total planning and research	1,550	2,386	836	675
Staff services	44,042	48,804	4,762	52,890
Total business, operations, and central services	3,626,410	3,600,863	(25,547)	3,405,991
Total supporting services	7,571,022	7,492,198	(78,824)	7,291,315
Community Services - Civic auditorium				
Salaries	52,581	50,215	(2,366)	52,578
Benefits	13,377	11,083	(2,294)	11,784
Purchased services	5,440	4,463	(977)	6,511
Supplies, materials, and other	21,574	17,580	(3,994)	8,434
Total community services - Civic auditorium	92,972	83,341	(9,631)	79,307
Debt service:				
Principal	50,918	50,918	-	50,918
Interest expense	4,672	4,583	(89)	6,693
Total debt service	55,590	55,501	(89)	57,611

(Continued)

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Concluded
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	Amended Budget	Actual	Variance - Over/(Under) Budget	2007 Actual
Expenditures (concluded)				
Capital outlay				
Instruction	\$ 193,190	\$ 182,434	\$ (10,756)	\$ 124,573
Support	231,916	235,411	3,495	144,296
Total capital outlay	425,106	417,845	(7,261)	268,869
Total expenditures	22,759,550	22,604,195	(155,355)	21,603,572
Revenue over (under) expenditures	460,765	835,807	375,042	542,681
Other financing sources (uses)				
Transfers in	60,000	60,000	-	60,000
Transfers out	(355,837)	(355,837)	-	(323,837)
Total other financing sources (uses) and other uses (sources)	(295,837)	(295,837)	-	(263,837)
Change in fund balance	<u><u>\$ 164,928</u></u>	<u><u>\$ 539,970</u></u>	<u><u>\$ 375,042</u></u>	<u><u>\$ 278,844</u></u>

(Concluded)

NONMAJOR GOVERNMENTAL FUNDS

LAKESHORE PUBLIC SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue		
	Athletics	Food Service	Bookstores
Assets			
Cash and investments	\$ 34,002	\$ 281,733	\$ 104,689
Accounts receivable	-	6,972	-
Due from other funds	-	36,334	127
Inventory	-	17,837	-
Prepaid items	-	1,143	-
Total assets	\$ 34,002	\$ 344,019	\$ 104,816
Liabilities			
Accounts payable	\$ 17,366	\$ 8,812	\$ 559
Due to other funds	-	60,662	-
Deferred revenue	4,022	14,524	-
Total liabilities	21,388	83,998	559
Fund balances			
Reserved for inventory	-	17,837	-
Reserved for prepaids	-	1,143	-
Unreserved, undesignated	12,614	241,041	104,257
Total fund balances	12,614	260,021	104,257
Total liabilities and fund balances	\$ 34,002	\$ 344,019	\$ 104,816

Debt Service		Capital Projects	Total
2000 Debt Service	Durant Non- Plaintiff	Building and Site	
\$ 532,144	\$ -	\$ 375,748	\$ 1,328,316
-	103,692	-	110,664
-	-	-	36,461
-	-	-	17,837
-	-	-	1,143
\$ 532,144	\$ 103,692	\$ 375,748	\$ 1,494,421
\$ -	\$ -	\$ 281,679	\$ 308,416
-	-	-	60,662
-	103,692	-	122,238
-	103,692	281,679	491,316
-	-	-	17,837
-	-	-	1,143
532,144	-	94,069	984,125
532,144	-	94,069	1,003,105
\$ 532,144	\$ 103,692	\$ 375,748	\$ 1,494,421

LAKESHORE PUBLIC SCHOOLS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

	Special Revenue		
	Athletics	Food Service	Bookstores
Revenue			
Local sources	\$ 109,216	\$ 723,942	\$ 87,315
State sources	-	37,624	-
Federal sources	-	331,309	-
Total revenue	109,216	1,092,875	87,315
Expenditures			
Current:			
Supporting services	-	-	77,458
Food service	-	1,007,169	-
Athletic activities	472,579	-	-
Debt service:			
Principal	-	-	-
Interest expense	-	-	-
Capital outlay	-	-	-
Total expenditures	472,579	1,007,169	77,458
Revenue over (under) expenditures	(363,363)	85,706	9,857
Other financing sources (uses)			
Transfers in	355,837	-	-
Transfers out	-	(60,000)	-
Total other financing sources (uses)	355,837	(60,000)	-
Net changes in fund balances	(7,526)	25,706	9,857
Fund balances, beginning of year	20,140	234,315	94,400
Fund balances, end of year	\$ 12,614	\$ 260,021	\$ 104,257

Debt Service		Capital Projects	
2000 Debt Service	Durant Non- Plaintiff	Building and Site	Total
\$ 2,284,889	\$ -	\$ 1,054,362	\$ 4,259,724
-	-	-	37,624
-	-	-	331,309
2,284,889	-	1,054,362	4,628,657
-	-	-	77,458
-	-	-	1,007,169
-	-	-	472,579
1,330,000	-	-	1,330,000
821,774	-	-	821,774
-	-	1,359,491	1,359,491
2,151,774	-	1,359,491	5,068,471
133,115	-	(305,129)	(439,814)
-	-	-	355,837
-	-	-	(60,000)
-	-	-	295,837
133,115	-	(305,129)	(143,977)
399,029	-	399,198	1,147,082
\$ 532,144	\$ -	\$ 94,069	\$ 1,003,105

LAKESHORE PUBLIC SCHOOLS
Athletics Fund
Schedule of Revenue, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	Budget			Variance -	
	Original	Amended	Actual	Over/(Under)	2007
				Budget	Actual
Revenue					
Local sources:					
Gate receipts	\$ 120,000	\$ 93,500	\$ 93,631	\$ 131	\$ 127,004
Interest income	1,500	2,300	2,272	(28)	1,461
Other	6,100	13,225	13,313	88	6,148
Total revenue	127,600	109,025	109,216	191	134,613
Expenditures					
Current:					
Supporting services:					
Salaries	241,000	234,733	231,798	(2,935)	234,437
Employee benefits	59,200	58,242	55,681	(2,561)	56,240
Purchased services	68,100	68,100	64,338	(3,762)	67,841
Supplies and materials	77,500	112,039	111,567	(472)	111,873
Other expenditures and transfers to other districts	7,300	9,130	9,195	65	7,701
Total expenditures	453,100	482,244	472,579	(9,665)	478,092
Revenue over (under) expenditures	(325,500)	(373,219)	(363,363)	9,856	(343,479)
Other financing sources					
Transfers in	323,837	355,837	355,837	-	323,837
Net changes in fund balance	(1,663)	(17,382)	(7,526)	9,856	(19,642)
Fund balance, beginning of year	20,140	20,140	20,140	-	39,782
Fund balance, end of year	\$ 18,477	\$ 2,758	\$ 12,614	\$ 9,856	\$ 20,140

LAKESHORE PUBLIC SCHOOLS
Food Service Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

	Budget			Variance -	
	Original	Amended	Actual	Over/(Under)	2007
				Budget	Actual
Revenue					
Local sources:					
Lunch receipts	\$ 697,100	\$ 715,500	\$ 719,034	\$ 3,534	\$ 698,294
Interest income	6,000	4,900	4,908	8	6,626
Other	500	500	-	(500)	-
Total local sources	703,600	720,900	723,942	3,042	704,920
State sources:					
State aid	37,000	38,329	37,624	(705)	39,115
Federal sources:					
National School Lunch (NSL)	220,000	235,500	271,776	36,276	225,879
USDA Donated Commodities	50,000	50,000	59,533	9,533	44,204
Total federal sources	270,000	285,500	331,309	45,809	270,083
Total revenue	1,010,600	1,044,729	1,092,875	48,146	1,014,118
Expenditures					
Current:					
Food service:					
Salaries	335,063	347,326	343,818	(3,508)	324,092
Employee benefits	105,918	112,678	111,316	(1,362)	106,101
Purchased services	15,100	13,600	8,270	(5,330)	16,741
Supplies and materials	430,700	480,000	478,435	(1,565)	417,978
NSL commodities	50,000	50,000	59,533	9,533	44,204
Other expenditures and transfers to other districts	5,400	5,700	5,797	97	5,622
Capital outlay	2,000	2,000	-	(2,000)	-
Total expenditures	944,181	1,011,304	1,007,169	(4,135)	914,738
Revenue over (under) expenditures	66,419	33,425	85,706	52,281	99,380
Other financing uses					
Transfers out	(60,000)	(60,000)	(60,000)	-	(60,000)
Net change in fund balances	6,419	(26,575)	25,706	52,281	39,380
Fund balance, beginning of year	234,315	234,315	234,315	-	194,935
Fund balance, end of year	\$ 240,734	\$ 207,740	\$ 260,021	\$ 52,281	\$ 234,315

LAKESHORE PUBLIC SCHOOLS

Bookstores Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual For the Year Ended June 30, 2008

(With Comparative Totals for the Year Ended June 30, 2007)

	Budget			Variance - Over/(Under)	2007
	Original	Amended	Actual	Budget	Actual
Revenue					
Local sources:					
Interest income	\$ 2,500	\$ 1,750	\$ 1,849	\$ 99	\$ 2,739
Other	64,000	72,000	85,466	13,466	68,506
Total revenue	66,500	73,750	87,315	13,565	71,245
Expenditures					
Current:					
Supporting services:					
Salaries	8,000	6,500	5,332	(1,168)	5,590
Employee benefits	2,000	1,500	1,353	(147)	1,380
Purchased services	1,000	100	-	(100)	-
Supplies and materials	70,000	73,800	70,773	(3,027)	75,448
Capital outlay	1,000	100	-	(100)	2,247
Total expenditures	82,000	82,000	77,458	(4,542)	84,665
Net changes in fund balance	(15,500)	(8,250)	9,857	18,107	(13,420)
Fund balance, beginning of year	94,400	94,400	94,400	-	107,820
Fund balance, end of year	\$ 78,900	\$ 86,150	\$ 104,257	\$ 18,107	\$ 94,400

AGENCY FUND

LAKESHORE PUBLIC SCHOOLS
Statement of Changes in Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

	Student Activities Fund			
	Beginning Balance	Additions	Deletions	Ending Balance
Assets				
Cash and cash equivalents	<u><u>\$ 228,877</u></u>	<u><u>\$ 1,924,402</u></u>	<u><u>\$ 1,792,265</u></u>	<u><u>\$ 361,014</u></u>
Liabilities				
Accounts payable	\$ 4,807	\$ 79,899	\$ 4,807	\$ 79,899
Due to student groups	<u>224,070</u>	<u>1,717,030</u>	<u>1,659,985</u>	<u>281,115</u>
Total liabilities	<u><u>\$ 228,877</u></u>	<u><u>\$ 1,796,929</u></u>	<u><u>\$ 1,664,792</u></u>	<u><u>\$ 361,014</u></u>

LAKESHORE PUBLIC SCHOOLS
Schedule of Bonds Issued and Outstanding
2000 Refunding Bonds
June 30, 2008

Issue dated December 1, 2000 in the amount of \$ 20,300,000

Less:

Bonds paid in prior years	3,870,000
Bonds due and paid May 1, 2008	1,330,000

Balance outstanding - June 30, 2008	\$ 15,100,000
--	--------------------------

<u>Due</u>	<u>Interest Rate</u>	<u>Bond Principal</u>	<u>Interest Due</u>	<u>Total</u>
05/01/2009	5.000	\$ 1,475,000	\$ 755,000	\$ 2,230,000
05/01/2010	5.000	1,625,000	681,250	2,306,250
05/01/2011	5.000	1,790,000	600,000	2,390,000
05/01/2012	5.000	1,860,000	510,500	2,370,500
05/01/2013	5.000	1,900,000	417,500	2,317,500
05/01/2014	5.000	1,700,000	322,500	2,022,500
05/01/2015	5.000	1,500,000	237,500	1,737,500
05/01/2016	5.000	1,250,000	162,500	1,412,500
05/01/2017	5.000	1,000,000	100,000	1,100,000
05/01/2018	5.000	1,000,000	50,000	1,050,000
		<u>\$ 15,100,000</u>	<u>\$ 3,836,750</u>	<u>\$18,936,750</u>

Date of issue: December 1, 2000

LAKESHORE PUBLIC SCHOOLS

Property Tax Data For the Year Ended June 30, 2008

	<u>Unpaid at July 1, 2007</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Adjustments and Write-Offs</u>	<u>Unpaid at June 30, 2008</u>
General fund	\$ 21,218	\$ 3,714,526	\$ 3,685,998	\$ 12,070	\$ 37,676
Debt retirement fund	7,077	2,175,360	2,174,347	5,510	2,580
Building and site fund	3,114	1,017,729	1,017,360	2,243	1,240
Subtotal	31,409	<u>\$ 6,907,615</u>	<u>\$ 6,877,705</u>	<u>\$ 19,823</u>	41,496
Less allowance for uncollectible taxes	<u>(31,409)</u>				<u>(41,496)</u>
Total	<u>\$ -</u>				<u>\$ -</u>

Other information

Taxable value of property assessed in the Lakeshore Public School District for 2008

	<u>Homestead</u>	<u>Non-homestead</u>
Municipality:		
Baroda Township	\$ 52,309,422	\$ 17,220,586
Lake Township	4,402,233	505,471
Lincoln Township	371,719,914	175,205,748
Oronoko Township	539,472	-
Royalton Township	23,977,594	3,500,061
St. Joseph Township	17,125,879	13,157,077
Total	<u>\$470,074,514</u>	<u>\$ 209,588,943</u>
Tax levy (mills):		
General fund	-	18.0000
Debt retirement fund	3.2000	3.2000
Building and site fund	1.4971	1.4971
Total	<u>4.6971</u>	<u>22.6971</u>
Blended official student enrollment		<u>2,962</u>



LAKE SHORE PUBLIC SCHOOLS

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

**LAKESHORE PUBLIC SCHOOLS
SINGLE AUDIT**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 3, 2008

Board of Education
Lakeshore Public Schools
Stevensville, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lakeshore Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lakeshore Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lakeshore Public Schools' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding 2008-1 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our considering of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lakeshore Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lakeshore Public Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lakeshore Public Schools' response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of Lakeshore Public Schools in a separate letter dated November 3, 2008.

This report is intended solely for the information and use of management and the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

November 3, 2008

Board of Education
Lakeshore Public Schools
Stevensville, Michigan

Compliance

We have audited the compliance of Lakeshore Public Schools, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Lakeshore Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lakeshore Public Schools' management. Our responsibility is to express an opinion on Lakeshore Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lakeshore Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lakeshore Public Schools' compliance with those requirements.

In our opinion, Lakeshore Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Lakeshore Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lakeshore Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lakeshore Public Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated November 3, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lake Shore Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Lakeshore Public Schools
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2007	Current Year Cash Received	Expenditures		Accrued (Deferred) Revenue June 30, 2008	
						(Memo Only) Prior Year(s)	Year Ended June 30, 2008		
U.S. Department of Agriculture									
Direct Programs:									
Entitlement Commodities	10.550	-n/a-	\$ 58,011	\$ -	\$ 58,011	\$ -	\$ 58,011	\$ -	
Bonus Commodities	10.550	-n/a-	1,522	-	1,522	-	1,522	-	
					-	59,533	-	59,533	-
Passed through the Michigan Department of Education:									
Child Nutrition Cluster:									
National School Lunch - Breakfast	10.553	071970	1,591	-	1,591	-	1,591	-	
National School Lunch - Breakfast	10.553	081970	22,392	-	22,392	-	22,392	-	
					-	23,983	-	23,983	-
National S/L Section 4 All Lunches	10.555	071950	7,700	-	7,700	-	7,700	-	
National S/L Section 4 All Lunches	10.555	081950	59,610	-	59,610	-	59,610	-	
National S/L Section 11 Free & Reduced	10.555	071960	19,346	-	19,346	-	19,346	-	
National S/L Section 11 Free & Reduced	10.555	081960	161,137	-	161,137	-	161,137	-	
					-	247,793	-	247,793	-
Total Child Nutrition Cluster				-	271,776	-	271,776	-	
Total U.S. Department of Agriculture					-	331,309	-	331,309	-
U.S. Department of Education									
Passed through Michigan Department of Education:									
Title I, Part A	84.010	071530-0607	68,211	13,935	13,935	64,580	-	-	
Title I, Part A	84.010	081530-0708	80,948	-	41,553	-	63,914	22,361	
					13,935	55,488	64,580	63,914	22,361
Title V, Part A	84.298	070250-0607	573	573	573	573	-	-	
Title V, Part A	84.298	080250-0708	590	-	-	-	590	590	
					573	573	573	590	590
Title II, Part D	84.318	074290-0607	700	20	20	700	-	-	
Title II, Part D	84.318	084290-0708	721	-	-	-	721	721	
					20	20	700	721	721
Title II, Part A	84.367	070520-0607	63,152	13,830	13,830	63,152	-	-	
Title II, Part A	84.367	080520-0708	63,837	-	29,807	-	46,428	16,621	
					13,830	43,637	63,152	46,428	16,621
Passed through the Berrien County Intermediate School District:									
IDEA State Initiated Transition	84.027	070450-0607	310,585	94,519	94,519	310,585	-	-	
IDEA State Initiated Transition	84.027	080450-0708	381,329	-	235,507	-	381,329	145,822	
					94,519	330,026	310,585	381,329	145,822
Service Provider Self Review	84.027a	-n/a-	4,500	-	-	-	800	800	
Perkins III	84.048	073520701219-0607	14,905	-	7,452	-	14,905	7,453	
Safe and Drug Free Schools	84.186	072860-0607	4,038	(4,038)	-	-	4,038	-	
Total U.S. Department of Education					118,839	437,196	439,590	512,725	194,368
Total Expenditures of Federal Awards				\$ 118,839	\$ 768,505	\$ 439,590	\$ 844,034	\$ 194,368	

LAKESHORE PUBLIC SCHOOLS
Single Audit

Notes to Schedule of Expenditures of Federal Awards

Basis of Accounting

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

Reconciliation of Basic Financial Statements

Revenues from federal sources per the June 30, 2008 basic financial statements agree with federal expenditures from the June 30, 2008 Schedule of Expenditures of Federal Awards.

Management has utilized the Grants Section Auditors Report (Form R7120) and Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

LAKESHORE PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal controls over financial reporting:

Material weakness(es) identified?

_____ yes x no

Significant deficiency(ies) identified not
considered to be material weaknesses?

 x yes _____ none reported

Noncompliance material to financial
statements noted?

_____ yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes x no

Significant deficiency(ies) identified not
considered to be material weaknesses?

_____ yes x none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)?

_____ yes x no

Identification of Major Programs

CFDA Number

10.553 & 10.555

Name of Federal Program or Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish
between Type A and Type B programs:

 \$ 300,000

Auditee qualified as low risk auditee?

 x yes _____ no

LAKESHORE PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2008-1 – Significant Audit Adjustment

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: The financial statements include a prior period adjustment to restate capital assets of governmental activities based on the results of a physical inventory.

Cause: The District hired a third-party to take a physical inventory of its capital assets. During this process, the District identified various errors in its capital asset records, as well as certain existing assets that had been omitted from prior reports.

Effect: As a result of this condition, the District's beginning capital assets and net assets were initially misstated by amounts that were significant to the financial statements taken as a whole.

Recommendation: We recommend that management work closely with the District's third-party capital asset appraisal company to ensure that future reports are complete and accurate.

View of Responsible Officials: The district hired Valuation Resource Management early in 2006-2007 fiscal year to perform an inventory and appraisal of the district's assets. During that inventory, the company missed counting various assets including some computers and other technology equipment, licensed vehicles, etc. In the spring of 2007-2008 fiscal year, the district once again hired Valuation Resource to complete an inventory of assets. Having detected that the company had missed some assets in its initial inventory, we had out technology staff and transportation staffs work with them to ensure a more accurate inventory of technology equipment and licensed vehicles.

We feel that this latest inventory is a more accurate reflection of capital assets on hand. We also concur with the auditors that if we hire Valuation Resource in the future we will continue to monitor and verify the accuracy of their counts. While we agree with the audit restatement of the beginning balances, we also acknowledge that the adjustment of \$39,122 represents only about 0.1 percent (0.1%) of total net capital assets.

SECTION III – FEDERAL AWARDS FINDINGS

None reported.

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

Finding 2007-1 The District had not consistently documented its review and approval of expenditures prior to payments being released. This finding has been corrected.

* * * * *



REHMANN ROBSON

Certified Public Accountants

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November 3, 2008

To the Board of Education
Lakeshore Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Lakeshore Public Schools* (the "District") for the year ended June 30, 2008, and have issued our report thereon dated November 3, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.



Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meeting about planning matters on August 18,2008.

Significant Audit Findings*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. Other than the prior period adjustment disclosed in Note 15 to the financial statements, there are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 3, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Lakeshore Public Schools* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson".

Lakeshore Public Schools
Comments and Recommendations
For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the Lakeshore Public Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiency we noted that we consider to be a significant deficiency is described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiency we noted that we consider to be a material weakness is described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

Other Matters

Segregation of Duties

In connection with the implementation of the Audit Risk Suite, we were required to more closely examine the District's internal controls over financial reporting. Through this process, we identified two opportunities to strengthen the District's internal controls with regards to the segregation of incompatible duties. While the District does have other controls in place to mitigate the impact of these conditions, we nevertheless would encourage management to evaluate whether it would be feasible and cost effective to implement changes in the following areas:

- Currently, the Payroll Clerk performs virtually all of the steps for processing payroll without independent review. The Payroll Clerk is responsible for processing payroll, preparing/approving the payroll register, and distributing the payroll checks. Ideally, another individual should be involved in the review and approval of payroll prior to it being released.

Lakeshore Public Schools
Comments and Recommendations
For the Year Ended June 30, 2008

- Bank statements are reconciled by individuals who also participate in the cash receipts and disbursement functions.
- There is not currently a procedure requiring someone independent of the cash receipting function to match the detail of cash receipts to the bank deposit slip prior to posting the deposit to the general ledger or taking the deposit to the bank.

Trust and Agency Disbursements

During our audit, we selected a sample of student activity account disbursements and found that 3 of the 15 items selected for testing did not have supporting documentation attached to the reimbursement/check request. Based on our discussions with management, it appears that supporting documentation is not always required for these disbursements to be approved and processed. We recommend that all disbursements require proper supporting documentation before a check is processed.

Suspension and Debarment

During our audit of federal awards, we noted that the District does not routinely include language in its requests for proposals or contracts requiring respondents to affirmatively state that they are not suspended or debarred from being awarded contracts funded with federal grants. In order to protect itself from the possibility of disallowed costs, we recommend that the District make this requirement a standard provision of any contract or request for proposals issued in the future.

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